SUNRISE EDUCATION CENTER

REPORT ON FINANCIAL STATEMENTS (with required supplemental information)

YEAR ENDED JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors Sunrise Education Center Tawas City, Michigan

October 3, 2007

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sunrise Education Center (the Academy), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sunrise Education Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sunrise Education Center as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors Sunrise Education Center Tawas City, Michigan

October 3, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2007, on our consideration of Sunrise Education Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maner, Costaisan + Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Sunrise Education Center's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

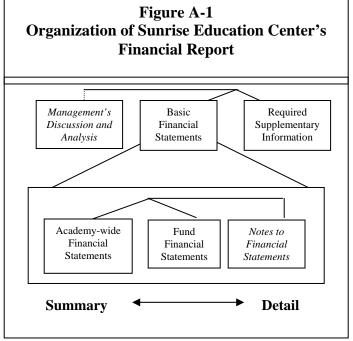
- The Academy had an increase in the fund balance in the general fund of \$24,801 compared to a budgeted figure of \$1,066. This gives the Academy a general fund balance of \$40,231.
- The Academy retired \$17,742 in long-term debt during the year.
- The Academy invested \$7,784 in capital assets during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund* financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary



information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-wide and Fund Financial Statements

	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire Academy (except	All activities of the Academy	Instances in which the Academy
	fiduciary funds)	that are not fiduciary	administers resources on behalf of
			someone else, such as students
Required financial statements	* Statement of net assets	* Balance sheet	Statement of fiduciary assets and
			liabilities
	* Statement of activities	* Statement of revenues,	
		expenditures and changes in	
		fund balances	
Accounting basis and	Accrual accounting and	Modified accrual accounting and	Accrual accounting and economic
measurement focus	economic resources focus	current financial resources focus	resources focus
Type of asset/liability	All assets and liabilities,	Generally assets expected to be	All assets and liabilities, both
information	both financial and capital,	used up and liabilities that come	short-term and long-term, the
	short-term and long-term	due during the year or soon	Academy's funds do not currently
		thereafter; no capital assets or	contain capital assets, although
		long-term liabilities included	they can
Type of inflow/outflow	All revenues and expenses	Revenues for which cash is	All additions and deductions
information	during the year, regardless	received during or soon after the	during the year, regardless of
	of when cash is received or	end of the year, expenditures	when cash is received or paid
	paid	when goods or services have	
		been received and the related	
		liability is due and payable	

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State Law and the Academy establishes other funds to help it control and manage money for particular purposes.

- Governmental funds Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.
- Fiduciary funds The Academy is the trustee, or fiduciary, for assets that belong to others. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of \$44,798 improved by \$22,733 during the year. See Figures A-3 and A-4.

The total revenues increased by 13% to \$612,626. This increase is mainly due to additional state and federal grants received during the year. State aid foundation allowance included in revenue from state sources accounts for 77% of the Academy's revenue.

The total cost of instruction increased by 9% to \$275,176 primarily due to implementing the Michigan School Readiness Program.

Academy governmental activities

Figure A-3					
Sunrise Education Center's Net Assets					
		2007		2006	
Current assets	\$	135,453	\$	97,462	
Capital assets, net		771,068		790,878	
Total assets		906,521		888,340	
Current liabilities		117,594		104,938	
Long-term liabilities		744,129		761,337	
Total liabilities		861,723		866,275	
Net assets:					
Invested in capital assets, net of related debt		4,567		6,635	
Unrestricted, as restated		40,231		15,430	
Total net assets	\$	44,798	\$	22,065	

Figure A	A-4					
Changes in Sunrise Education Center's Net Assets						
	2007	2006				
Revenues:						
Program revenues:						
Federal and state categorical grants	\$ 126,610	\$ 90,715				
General revenues:						
State aid - unrestricted	471,943	445,373				
Other	14,073_	6,001				
Total general revenues	486,016	451,374				
Total revenues	612,626	542,089				
Expenses:						
Instruction	275,176	253,545				
Support services	219,495	189,865				
Interest and fees	67,628	58,704				
Unallocated depreciation	27,594	24,498				
Total expenses	589,893	526,612				
Change in net assets	\$ 22,733	\$ 15,477				

Financial analysis of the Academy's funds

The Academy's fund balance increased by \$24,801 to \$40,231. Transfers to the debt service fund for principal and interest payments on long-term debt of \$85,370 were made from the general fund. Instruction expenses decreased as a result of a reduction in employee costs.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both the revenue and expenditure which reflected anticipated decreases in state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures and other financing sources or uses by \$1,066, the actual results for the year showed revenues over expenditures of \$24,801.

Actual revenues were \$54,286 more than budgeted, due primarily to an additional state grant received just before year end.

The actual expenditures were \$31,181 over budget due primarily to the expenditures related to the above referenced state grant.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2007, the Academy had invested \$771,068 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$19,810 from the beginning of the year. Total depreciation expense for the year was \$27,594. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5 Sunrise Education Center's Capital Assets								
		Cost		cumulated oreciation	N	2007 Net book value		2006 net
Land	\$	55,000	\$	04.242	\$	55,000	\$	55,000
Building and improvements Computer equipment		782,333 16,636		84,343 3,558		697,990 13,078		722,258 13,620
Site improvements Furniture and fixtures		5,000 6,121		6,121		5,000		
Total	\$	865,090	\$	94,022	\$	771,068	\$	790,878

Capital assets (Concluded)

The Academy purchased additional computer equipment which was funded by a federal grant.

Long-term debt

The Academy repaid principal on long-term debt of \$17,742 during 2007. The Academy did not borrow any additional long-term debt during the year. See Note 6 for more information.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was unaware of existing circumstances that could significantly affect its financial health in the future.

The Board of Directors and management have taken appropriate steps to reduce cost. Considering the factors noted, necessary reductions touched every segment of the operation. Primary consideration was given to maintaining the educational integrity of the program.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC at P.O. Box 141493, Grand Rapids, Michigan, 49514, phone (616) 785-8440.

SUNRISE EDUCATION CENTER STATEMENT OF NET ASSETS JUNE 30, 2007

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 23,293
Due from other governmental units	112,160
TOTAL CURRENT ASSETS	135,453
NONCURRENT ASSETS:	
Capital assets	865,090
Less accumulated depreciation	(94,022)
TOTAL NONCURRENT ASSETS	771,068
TOTAL ASSETS	\$ 906,521
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 31,479
Accrued salaries and related items	37,605
Accrued management fee	7,498
Note payable	18,640
Current portion mortgage payable	22,372
TOTAL CURRENT LIABILITIES	117,594
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	744,129
TOTAL LIABILITIES	861,723
NET ASSETS:	
Invested in capital assets, net of related debt	4,567
Unrestricted	40,231
TOTAL NET ASSETS	44,798
TOTAL LIABILITIES AND NET ASSETS	\$ 906,521

SUNRISE EDUCATION CENTER STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2007

					vernmental activities
		Program	revenues		t (expense) venue and
Functions/programs	Expenses	Charges for services	Operating grants	changes in net assets	
Governmental activities:					
Instruction	\$ 275,176	\$	\$ 125,235	\$	(149,941)
Support services	219,495		1,375		(218,120)
Interest on long-term debt	67,628				(67,628)
Unallocated depreciation	27,594				(27,594)
Total governmental activities	\$ 589,893	\$	\$ 126,610		(463,283)
General revenues:					
State sources					471,943
Other					14,073
Total general revenues					486,016
CHANGE IN NET ASSETS					22,733
NET ASSETS, beginning of year					22,065
NET ASSETS, end of year				\$	44,798

SUNRISE EDUCATION CENTER BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2007

	General fund		Debt service	gov	Total rernmental funds
ASSETS					
ASSETS:					
Cash and cash equivalents	\$	23,293	\$	\$	23,293
Due from other governmental units		112,160	 		112,160
TOTAL ASSETS	\$	135,453	\$ 	\$	135,453
LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Accounts payable	\$	31,479	\$	\$	31,479
Accrued salaries and related items		37,605			37,605
Accrued management fee		7,498			7,498
Note payable		18,640			18,640
TOTAL LIABILITIES		95,222			95,222
FUND BALANCE:					
Unreserved, undesignated		40,231			40,231
TOTAL LIABILITIES AND FUND BALANCE	\$	135,453	\$ 	\$	135,453
Total governmental fund balance				\$	40,231
Amounts reported for governmental activities in the statement of					
net assets are different because:					
Capital assets used in governmental activities are not financial					
resources and are not reported in the funds:					
The cost of the capital assets is			\$ 865,090		
Accumulated depreciation is			 (94,022)		
					771,068
Long-term liabilities are not due and payable in the current period					
and are not reported in the funds:					
Mortgage payable					(766,501)
Net assets of governmental activities				\$	44,798

SUNRISE EDUCATION CENTER STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2007

	General fund	Debt service	Total governmental funds
REVENUES:	ф 12.600	Φ	Ф 12.600
Local sources State sources	\$ 13,600 555,270	\$	\$ 13,600 555,270
Federal sources	43,283		43,283
Incoming transfers	473		473
Total revenues	612,626		612,626
EXPENDITURES:			
Current: Instruction:			
Basic programs	218,433		218,433
Added needs	56,743		56,743
Total instruction	275,176		275,176
Support services:			
Pupil	7,903		7,903
Instructional staff General administration	10,561 63,675		10,561
School administration	41,329		63,675 41,329
Business services	3,927		3,927
Operation and maintenance	47,327		47,327
Pupil transportation	39,457		39,457
Central support services	5,316		5,316
Total support services	219,495		219,495
Capital outlay	7,784		7,784
Debt service:			
Principal retirement		17,742	17,742
Interest and fiscal charges		67,628	67,628
Total debt service		85,370	85,370
Total expenditures	502,455	85,370	587,825
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES	110,171	(85,370)	24,801
OTHER FINANCING SOURCES (USES):			
Operating transfers from other funds	(05.270)	85,370	85,370
Operating transfers to other funds	(85,370)		(85,370)
Total other financing sources (uses)	(85,370)	85,370	
NET CHANGE IN FUND BALANCES	24,801		24,801
FUND BALANCES:			
Beginning of year	15,430		15,430
End of year	\$ 40,231	\$	\$ 40,231

SUNRISE EDUCATION CENTER RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2007

Net change in fund balances total governmental funds	\$ 24,801
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities	
these costs are allocated over their estimated useful lives as depreciation.	
Capital outlay	7,784
Depreciation expense	(27,594)
Repayments of principal on long-term debts are expenditures	
in the governmental funds, but not in the statement of activities	
(where they are reductions of liabilities).	
Principal repayment on loan payable	 17,742
Change in net assets of governmental activities	\$ 22,733

SUNRISE EDUCATION CENTER STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES FIDUCIARY FUND JUNE 30, 2007

	Agenc	cy fund
ASSETS:		
Cash	\$	610
LIABILITIES:		
Due to CLASS organization	\$	610

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Sunrise Education Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The Sunrise Education Center (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 30, 2011. The Academy's Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even through the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt.

Fiduciary fund accounts for assets held by the Academy in a trustee capacity or an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources* measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when received within 60 days of year end. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits accounts.

The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, are shown net of an allowance for uncollectibles.

3. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The Academy's capitalization policy is to capitalize individual amounts exceeding \$1,000.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and building improvements	20 - 50 years
Site improvements	15 years
Furniture and fixtures	5 years
Computer equipment	5 years

4. Long-term obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether of not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

6. Fund balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be reappropriated in the subsequent fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- 2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- 3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
- 4. Formal budgetary integration is employed as a management control device during the year for the general fund.
- 5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The Academy does not consider these amendments to be significant.

NOTE 3 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2007, none of the Academy's bank balance of approximately \$29,000 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1,			Balance June 30,
	2006	Additions	Deletions	2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 55,000	\$	\$	\$ 55,000
Capital assets, being depreciated:				
Building and building improvements	782,334			782,334
Computer equipment	13,851	2,784		16,635
Furniture and fixtures	6,121			6,121
Site improvements		5,000		5,000
Total capital assets, being depreciated	802,306	7,784		810,090
Accumulated depreciation:				
Building and building improvements	60,076	24,267		84,343
Computer equipment	231	3,327		3,558
Furniture and fixtures	6,121			6,121
Total accumulated depreciation	66,428	27,594		94,022
Net capital assets being depreciated	735,878	(19,810)		716,068
Net governmental capital assets	\$ 790,878	\$(19,810)	\$	\$ 771,068

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation for the fiscal year ended June 30, 2007 amounted to \$27,594. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - NOTE PAYABLE

At June 30, 2007, the Academy has \$18,640 outstanding from a state aid anticipation note dated August 31, 2006. The note, which has an interest rate of 5.50%, matures August 30, 2007. The note is secured by future state school aid payments.

В	alance			Balance
June	30, 2006	Additions	Payments	June 30, 2007
\$	5,145	\$ 100,000	\$ 86,505	\$ 18,640

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2007:

	Mortgage note payable	
Long-term debt, July 1, 2006	\$ 784,243	
Deductions: Principal payments	 17,742	
Balance, June 30, 2007	766,501	
Less current portion	 22,372	
Total due after one year	\$ 744,129	

NOTE 6 - LONG-TERM DEBT (Concluded)

Long-term debt currently outstanding is as follows:

Mortgage note payable with monthly installments of \$7,405 through August 2023 with an interest rate of 8.79% adjusted annually. The mortgage is secured by the property.

\$ 766<u>,501</u>

The annual requirements to amortize long-term debts outstanding, including estimated interest of \$673,881 are as follows:

Year ending June 30,	ī	Principal	Interest	Total
3unc 30,		тистрат	 Interest	10111
2008	\$	22,372	\$ 66,488	\$ 88,860
2009		24,419	64,441	88,860
2010		26,654	62,206	88,860
2011		29,094	59,766	88,860
2012		31,757	57,103	88,860
2013 - 2017		208,084	236,216	444,300
2018 - 2022		322,415	121,885	444,300
2023 - 2024		101,706	5,776	 107,482
	\$	766,501	\$ 673,881	\$ 1,440,382

NOTE 7 - OPERATING LEASES

The Academy leases copy machines under an operating lease agreement with the lease starting August 8, 2006 and ending August 8, 2012, with monthly payments of \$238 a month. Expense for copy lease for the year ended June 30, 2007 was \$2,618. Future operating lease commitments are as follows:

Year ending June 30,	Copier lease	
2008	\$	2,856
2009		2,856
2010		2,856
2011		2,856
2012		238
Total	\$	11,662

NOTE 8 - TRANSFERS

Operating transfers between the governmental funds were as follows:

Operating tra	nsfers out	Operating transfers in	
General fund	\$ 85,370	Debt service fund	\$ 85,370

Operating transfers were made to the debt service fund to meet principal and interest payments on the mortgage note.

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Saginaw Valley State University, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of approximately \$14,000 for oversight fees.

NOTE 10 - MANAGEMENT AGREEMENT

The Academy had entered into a five year (through June 2008) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. This management agreement was terminated effective October 31, 2006. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is \$21,225 for fiscal year 2007. The Academy had entered into a one year (through October 2007) management agreement with CS Partners, LLC for operations of the Academy commencing November 1, 2006. Under the terms of the management agreement, CS Partners' compensation for operating the Academy is \$20,472 for fiscal year 2007.

NOTE 11 - PURCHASED SERVICES

The Academy leases all employee services from CS Partners. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of CS Partners. The amount due to CS Partners at June 30, 2007 was \$38,052.

NOTE 12 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

SUNRISE EDUCATION CENTER REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2007

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	\$ 3,900	\$ 9,550	\$ 13,600	\$ 4,050
State sources	507,750	506,485	555,270	48,785
Federal sources	41,177	42,305	43,283	978
Incoming transfers			473	473
Total revenues	552,827	558,340	612,626	54,286
EXPENDITURES:				
Instruction:				
Basic programs	187,399	181,460	218,433	(36,973)
Added needs	72,015	58,522	56,743	1,779
Total instruction	259,414	239,982	275,176	(35,194)
Support services:				
Pupil	7,700	7,800	7,903	(103)
Instructional staff	4,107	6,938	10,561	(3,623)
General administration	79,630	43,782	63,675	(19,893)
School administration	29,532	39,768	41,329	(1,561)
Business services	2,500	25,472	3,927	21,545
Operation and maintenance	39,870	51,948	47,327	4,621
Pupil transportation	31,000	38,000	39,457	(1,457)
Central support services	5,800	9,050	5,316	3,734
Total support services	200,139	222,758	219,495	3,263
Community services		750		750
Capital outlay		7,784	7,784	
Total expenditures	459,553	471,274	502,455	(31,181)
EXCESS OF REVENUES OVER EXPENDITURES	93,274	87,066	110,171	23,105
OTHER FINANCING SOURCES (USES):				
Operating transfers to other funds	(92,000)	(86,000)	(85,370)	630
NET CHANGE IN FUND BALANCE	\$ 1,274	\$ 1,066	24,801	\$ 23,735
FUND BALANCE: Beginning of year			15,430	
End of year			\$ 40,231	



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors Sunrise Education Center Tawas City, Michigan

October 3, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sunrise Education Center as of and for the year ended June 30, 2007, which collectively comprise Sunrise Education Center's basic financial statements of the Academy and have issued our report thereon dated October 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sunrise Education Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

Board of Directors Sunrise Education Center Tawas City, Michigan

October 3, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sunrise Education Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Sunrise Education Center in a separate letter dated October 3, 2007.

This report is intended solely for the information and use of the Board of Directors, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants



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October 3, 2007

To the Board of Directors Sunrise Education Center Tawas City, Michigan

In planning and performing our audit of the financial statements of Sunrise Education Center for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Sunrise Education Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 3, 2007 on the financial statements of Sunrise Education Center.

Prior Year Comments - Repeat

Purchase Orders

It is policy that the CAO review purchase orders and sign off as evidence of approval. It was noted during the audit that not all purchase orders were being approved. This practice may defeat the control a purchase order system is intended to provide. To help monitor the volume of purchases due to budget constraints and ensure that purchases are initiated with proper approval, we recommend that purchase orders be prepared and approved before items are received or ordered by other means.

<u>Update</u>

We noted purchase orders were being approved, however, we noted several instances where purchases orders were being approved after invoice and goods ordered were received.

Federal Grants

Currently federal expenditures are not kept in their own federal expenditure accounts. All federal grant expenditures are required by law to have their own accounts to avoid commingling funds with non-federal expenditures. We suggest setting up individual accounts to track federal expenditures separately.

<u>Update</u>

We noted several instances where federal expenditures were not kept in their own federal expenditure accounts.

Numerical Sequence of Checks

During our audit we noted the bank statements were going to the school secretary to be opened, but nobody was consistently accounting for the sequence of checks or reviewing the images of the checks for anything unusual. We recommend that the school secretary forward a copy of the bank statement along with the images of cancelled checks to the Board Treasurer or the Principal. This individual can review cancelled checks for any inappropriate activity and/or unusual transactions and verify numerical sequence of checks.

3

Establish a Fixed Asset Capitalization Policy

We noted the Academy does not have a board approved capitalization policy of fixed assets.

Consequently, the treatment of property additions and repairs and maintenance may not be consistent.

We recommend the board approve a formal capitalization policy.

New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of \$25,000 or less Such as Booster Groups and PTO's

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally \$25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally \$25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally \$5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- > Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- > Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- > Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally \$25,000 or less, and;
- Indicate if your organization has terminated (is no longer in business).

IRS 403(b) Final Regulations

<u>Intent</u>

The intent of the regulations is to consolidate guidance on §403(b) plans issued since 1964.

Effective Date

These regulations are generally effective for taxable years beginning after December 31, 2008. Plan documents should be in place December 31, 2008 to be implemented as of January 1, 2009.

Written Plan Document

The IRS is working on a model plan document and guidance for school districts. This should contain the provisions necessary for compliance with the new rules.

A plan may consist of several documents, or make reference to other documents, such as annuity contracts and custodial agreements. The employer must ensure that there are no conflicts or inconsistencies between the documents.

The document must contain eligibility rules, benefits available, limitations, allowable vendors, and time and form distributions.

The document must allocate administrative and compliance responsibilities to the employer and/or designated third parties. The plan may not allocate compliance responsibilities to the participants.

Other Provisions

- Exchange of investment products
- Universal availability
- Distributions
- > Terminations

Suggestions

Set up a committee of benefit officials and participants to review the current plan and design the future plan.

Determine if you need a third party administrator (TPA) to administer the plan and create a request for proposal (RFP) for services.

Offer employee education. The IRS is developing this type of information as well as a model plan for school districts.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year. If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

To the Board of Directors Sunrise Education Center Tawas City, Michigan

7

October 3, 2007

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Sunrise Education Center, management, and others within the Academy, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,





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Walter P. Maner, Jr. (1921-2004) Floyd L. Costerisan Leon A. Ellis (1933-1988)

October 3, 2007

To the Board of Directors Sunrise Education Center Tawas City, Michigan

We have audited the financial statements of Sunrise Education Center for the year ended June 30, 2007, and have issued our report thereon dated October 3, 2007. Professional standards require that we provide you with the following information related to our audit.

1. <u>Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards</u>

As stated in our engagement letter dated April 27, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Sunrise Education Center. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether Sunrise Education Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sunrise Education Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Sunrise Education Center during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. <u>Accounting Estimates</u>

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Sunrise Education Center's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Sunrise Education Center, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. <u>Consultations with Other Independent Accountants</u>

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. <u>Issues Discussed Prior to Retention of Independent Auditors</u>

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Sunrise Education Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of Sunrise Education Center and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.